Ag Innovation Guide

A publication of the Agriculture Business Development Division
Missouri Department of Agriculture

GETTING FROM IDEA TO IMPLEMENTATION
A Checklist For Producers Starting A New Value-Added Agriculture Business

This ***Ag Innovation Guide*** provides a brief overview of some of the steps you need to take in forming a new value-added agriculture business. Starting a new value-added agriculture business requires a tremendous amount of work, and the group of producers involved in the project needs to be able to carry through a project to the end. All of the stages of the process—from putting the steering committee together and choosing the right value-added business idea to evaluating the business idea and creating and implementing the business plan—are critical. This guide is not a comprehensive list of every step you will need to take. Rather, we hope that the listing below can help you understand the basic steps you will need to take in forming a new value-added agriculture business and creating an action plan at the beginning of your start-up efforts to ensure that you can successfully move idea to implementation.

PHASE 1: EXPLORATION AND ASSESSMENT

This phase sets the stage for your new value-added venture. You need to surround yourself with a hard-working set of producers and a knowledgeable set of resource-providers. Also, you must make sure that everyone involved has the same vision. If you cannot agree to a common purpose and vision upfront, developing the business plan and recruiting potential producer-investors will be very difficult. The following are some of the steps you should take during the Exploration and Assessment Phase.

- **Form a steering committee.** Choose a group people who are well-respected, hard-working and willing to work as a team to build your new business. You should also make sure that the individuals represent the various geographic areas your project will likely involve during the start-up process.

- **Identify your shared purpose, vision, mission and values.** Ask yourself, "what is our reason for joining together as group of producers?", "what do we want to be in 5 and 10 years?" and "what are the things we value?"

- **Formulate and develop your business ideas.** Determine how you plan to capture value from your commodities and narrow your list to a few options. You can begin the process by brainstorming in your steering group, or you can work with persons who are knowledgeable about market opportunities in specific commodity sectors. It may require a little research to find the business idea that best meets your purpose, but you can assign parts of this task to members of your steering committee.

- **Conduct an initial assessment of your market opportunities.** Ask yourself "does this idea make sense given the competitive environment of the industry?" and "will this provide a good or service that someone will be willing to purchase?"

- **Identify resource providers, such as facilitators, information specialists, and consultants, to assist you in the start-up of your venture.** You need to surround yourself with good resource providers. Whether it is an, a local economic developer, an Ag Innovation Center staff member or other value-added agriculture professional, there are resource providers available to assist you throughout the state. These resource providers can help you locate information, facilitate and plan meetings, and help you manage the project from idea to implementation.

- **Prepare a budget for estimated start-up expenses and develop a financing plan for paying for these expenses.** Potential sources of funds for start-up expenses are producers and other local sources, businesses in your area, local associations, and state or federal grant funds. In order to gauge commitment to the project, producers should be asked to contribute at least part of the start-up expenses.

- **Incorporate your new organization under appropriate state statutes.** You will need to hire experienced attorneys to help you with this stage.

If your group of producers is committed to the project and can work as an effective team and you have developed a list of potential business ideas, you are ready to proceed to the next phase.

PHASE 2: FEASIBILITY

The following are some of the steps you need to take during the Feasibility Phase:

- **Conduct initial market research and analysis to narrow down your options for potential business ideas.** You will need to make an initial determination based upon your market research whether your business idea has the potential to bring value back to your group of producers. The feasibility study step can be very costly, so your initial market research and analysis is critical in ultimately obtaining a high-quality, focused market feasibility study.

- **Prepare a market feasibility study, which is an analysis of the investment decision.** The market feasibility study will determine whether your business idea is feasible from a technical, financial and organizational perspective. The market feasibility study is an analysis of the market demand for a specific product or service and answers key questions about your idea, including the level of production required for efficiently operating the processing or marketing business that you proposed. The feasibility study helps you understand existing and potential market demand for the good or service, the minimum efficient scale needed for production, potential marketing channels, current industry structure, and competitive environment in the industry. Lenders often desire an independent feasibility analysis from experienced consultants, so be sure to hire consultants who are familiar with the industry and have conducted prior market feasibility studies. The feasibility study will help you determine whether the project is financially feasible for the specific group of producers involved.

- **Make sure the feasibility study answers the questions you need in making the decision whether to continue to pursue the project or not.** Once you receive the final feasibility study, you may want to ask the following questions when reviewing the completed feasibility analysis:

    - What assumptions were made in preparing the feasibility study? Do you agree with those assumptions? How would the results of the study change if some of the assumptions changed?
    - Does the market feasibility study anticipate best-case and worst-case scenarios?
    - How did the consultants obtain their information?
    - Does the study identify and address potential risk factors?

If your market research and feasibility study are positive, meaning you have a good business idea that will bring a positive return on investment back to producers, you are ready to develop a business plan which will guide you through the specifics of building your producer-owned value-added business.

PHASE 3: PLANNING

The following are some of the steps you need to take during the Planning Phase:

- **Review your legal organization, and determine what regulatory requirements, taxes, insurance, and intellectual property issues need to be addressed**. Your attorney will assist you in designing an organization that meets the needs of your own group of producers. You will formalize the initial board of directors at this time, so you will need to identify board members with board officers. The steering committee should answer several simple questions before meeting with your attorney to develop your organizational documents:

  - **Who Do You Want to Own the Organization?** *How will your organization be capitalized? Where will your equity come from? Will it only come from agricultural producers? Will you obtain equity from other sources?*
  - **Who Do You Want to Control the Organization?** *Should the organization be a democratic one, with one-member/one-vote? Or should voting rights based upon level of investment? Who will make decisions?*
  - **Who Do You Want to Benefit From the Organization?** *How will contributors of equity capital benefit from the organization? Will rewards come through higher commodity prices paid to producers? Through stock dividends? How will profits be distributed--returned to investors, reinvested in the business to fund operations or future expansion, or returned on the basis of patronage?*
- **Begin writing your business plan.** The business plan is an important document in that it becomes your action plan for creating a successful business. The business plan uses information you collected in the market feasibility stage and creates an implementation plan, which will include financial, governance, procurement, risk management, operations and management issues.

- **Determine plant and equipment needs.** Your market feasibility study should provide guidance in your specific plant and equipment needs for your new venture.

- **Determine how you will finance the business**. You should estimate that at least 40% of the total project cost will need to be provided upfront—this should primarily come from producers, but additional equity could be obtained through private sources. Your ability to raise funds from producers and non-producers is affected by state and federal tax, securities and corporation laws. You may also be eligible for tax credits, loan guarantees, and other financial assistance, however these programs often have specific requirements that may affect how you will need to structure your business.

- **Determine whether producers will need to make any changes in production practices to meet any quality requirements necessary.** If you are going to sell a high-quality processed good to consumers, you will need a quality control system throughout the entire process—from gate to plate—to ensure a quality end product.

- **Select a site for your operations.** Selection of the site is critical as your location must be competitive in terms of transportation, input procurement and/or proximity to consumers. It may not always make financial sense to have a processing facility in your own town. If your goal is to obtain a positive return on investment in the value-added venture, you must be open to looking at sites away from your local area.

- **Obtain feedback on your business plan from persons not involved in the project to make sure your business plan has addressed required issues and makes sense to other persons.** Sometimes an outside perspective can help you identify areas that need clarification or improvement.

- **Hire initial human resources, the staff who will run the business.** Your hiring decisions are critical, especially early management you may hire to oversee the construction and equity drive. You should hire people with experience, and you need to realize that hiring capable people with experience may be costly.

- **Meet with engineering design and construction firms.** Meet with several engineering design and construction firms to determine which firm has the services and price which best fit the specific needs of your project. You will likely want to competitively bid your design and construction projects to make sure you can make an informed comparison of the services and prices offered by competing firms.

Once you have completed a comprehensive business plan and you have a clear plan for capitalizing and implementing your business, you are ready to move to the Implementation Phase.

PHASE 4: IMPLEMENTATION

The following are some of the steps you need to take during the Implementation Phase:

- **Meet with lenders to share your business plan and discuss potential debt financing options.** As stated above, most lenders will require that you must contribute at least 40% of the total project cost upfront before they will provide any debt financing. Lenders will want to see a complete business plan with all of potential risk factors identified.

- **Prepare prospectus, offering circular or other investment documents.** The prospectus, also called an offering circular, provides prospective producer-members with the information they need to make an informed decision about investing in the new venture. It is critical that you hire experienced and qualified legal expertise to prepare your investment documents, as mistakes can be costly. Make sure the attorney you hire understands cooperative, corporation and securities laws and can ensure that all the necessary steps are completed before soliciting money from producers or other investors. You must make sure that your organizational documents allow for non-producer investment and that you comply with all state and federal securities laws in securing both producer and non-producer financial participation in your new venture.

- **Secure equity capital through producer members.** Once your prospectus is completed, you will need to conduct meetings with prospective producer-members. At these meetings you will share your prospectus, provide an overview of the new venture, and answer any questions producers have in analyzing their decision to invest in the new venture. These meetings may be your one chance to convince other producers to invest in your project, so make sure these meetings are well-planned and that you are able to adequately answer the questions producer-members are likely to ask.

- **Secure equity capital through non-producer investors, if required.** Your business plan and prospectus will specify your plans for securing equity from non-producer investors. Again, you must make sure that your organizational documents allow for non-producer investment and that you comply with all state and federal securities laws in securing both producer and non-producer financial participation in your new venture.

- **Secure debt.** Once you have raised the required equity, you are ready to finalize your loan with the lender.

- **Begin construction or remodeling of facilities.** Once you have received approval from your lender, you can begin construction or remodeling activities. To save valuable time, be sure to meet with engineering design and construction firms and bid out your design and construction projects so that you can begin construction activities soon after you secure the loan.

- **Hire additional staff members and develop a system for selecting, retaining and training people-human resources.** Your board and new management team should hire additional employees and develop a system for appraising the performance of your staff.

Once you have implemented the immediate aspects of your business plan, you are ready to move to the Operations Phase and become a fully-functioning business.

PHASE 5: OPERATIONS

The following are some of the steps you need to take during the Operations Phase:

- **Make sure you communicate regularly with your members**. Effective member relations is critical. Your producer-members own your new business and they will want to be updated regularly on the status of the business.

- **Establish a system for monitoring performance of management and other human resources.** The Board of Directors will need to have clearly identified performance objectives for the management team, and the management team should then make sure there is a system for appraising the performance of employees on a regular basis.

- **Develop a strategic plan to guide your organization after the start-up process which includes growth or exit strategies.** You should continue to revise your strategic plan as external conditions change so that you can adapt quickly to changes in the competitive environment. Your opportunities as a business will continue to change as the competitive environment changes. You will need to continually update your strategic plan to ensure that your organization will be able to effectively compete, grow or transition over time.

The Ag Business Development Staff is here to assist you in starting or expanding your agriculture-based business. Contact us today!

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